

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6857

BILL NUMBER: HB 1087

NOTE PREPARED: Dec 29, 2014

BILL AMENDED:

SUBJECT: Tax Credits for Media Production.

FIRST AUTHOR: Rep. Hale

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: The bill reestablishes the media production expenditure tax credit (which expired in 2012), with certain changes. It provides a refundable tax credit to taxpayers that make qualified production expenditures in Indiana.

This bill provides that the tax credit may be granted only if qualified production expenditures are at least \$50,000. It provides that in the case of a taxpayer that claims the tax credit for qualified production expenditures of less than \$6 M, the amount of the credit equals a percentage of the taxpayer's qualified production expenditures. It specifies that the percentage is: (1) 40%, in the case of qualified production expenditures paid to an individual or entity located in an economically distressed municipality or county; or (2) 35%, in the case of other qualified production expenditures.

The bill provides that in the case of a taxpayer that claims the tax credit for qualified production expenditures of at least \$6 M: (1) the amount of the credit equals the taxpayer's qualified production expenditures multiplied by a percentage (not more than 15%) determined by the Indiana Economic Development Corporation (IEDC); and (2) the taxpayer must, before incurring or making the qualified production expenditures, apply to the IEDC for approval of the tax credit. It provides that the maximum amount of media production expenditure tax credits that may be allowed during a state fiscal year for all taxpayers is \$2.5 M.

Effective Date: January 1, 2016.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will be required to modify the appropriate tax forms, instructions, and software to implement the bill. The DOR should be able to make these changes within its current level of resources.

Indiana Economic Development Corporation: The IEDC will be required to develop an application and authorization process for the media production expenditure credit. The IEDC should be able to implement the provisions within its current level of resources. [Taxpayers are only required to submit an application to the IEDC if the total qualified production expenditures will be above \$6 M.]

Explanation of State Revenues: Summary - The bill limits the annual loss of revenue from this tax credit to \$2.5 M per fiscal year beginning in FY 2016. The claims of the expired media production expenditure credit suggest that the decrease in revenue may be less than the annual cap. Prior credit claims suggest that the proposed credit could decrease state revenue deposited in the state General Fund by an estimated \$48,000 in FY 2016 and \$240,000 per fiscal year thereafter. However, the proposed credit may experience greater utilization and result in a larger revenue loss than estimated because of its lower qualifying expenditure threshold and greater credit award percentage.

Additional Information - The credit has three award calculation methods. The credit equals 35% of the qualified expenditures if the total qualified expenditures are less than \$6 M. If the total qualified expenditures are less than \$6 M and the expenditures are paid to an entity within an economically distressed region, the credit equals 40% of the qualified expenditures. If the total qualified expenditures are at least \$6 M, the IEDC may grant a maximum credit of up to 15% of the qualified expenditures. The credit is refundable and can be used to offset tax liabilities for Individual Adjusted Gross Income (AGI), Corporate AGI, Financial Institutions, and Insurance Premiums Taxes. Revenue collected from those taxes is deposited in the state General Fund. The revenue to the state General Fund would be reduced by the amount of the credits.

The bill also requires the credit recipient to file Indiana income tax returns for at least the first five years the recipient has income from the qualified media production. It establishes a specific apportionment method to compute the Indiana source income from a qualified media production. The special Indiana source income computation of the media production credit is computed by multiplying the taxpayer's total income from the media production by the ratio of the Indiana qualified production expenditures made by the taxpayer to the taxpayer's total production expenditures. This income apportionment method is used instead of the methods used by all other taxpayers. Failure to meet the filing requirements or to fulfill the agreement with the IEDC would allow the IEDC to disallow the credit and recapture all credits already applied to the taxpayer's state tax liability.

The revenue estimate is based on the credits claimed under the prior media production expenditure credit in tax year 2008, totaling \$90,106. Assuming the 15% credit award percentage under the prior credit, the imputed media expenditures in 2008 totaled approximately \$600,000. Using the maximum 40% credit award percentage of the proposed credit, the revenue loss on \$600,000 in media production expenditures would be \$240,000.

When the prior media expenditure production credit was effective between tax years 2008 and 2011, the credits claimed over this period totaled approximately \$187,000.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA income tax database; LSA *Indiana Income Tax Credit Study, Media Production Expenditure Credit*, Sept. 2012; Indiana Film Commission.

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